**Arcadium Lithium**

**Second Quarter 2024 Earnings Call Script**

**August 6, 2024**

*As Prepared for Delivery*

## Q2 2024 Conference Call

## *Introduction – Daniel Rosen*

Thank you, JL, and thanks to everyone for joining Arcadium Lithium's second quarter 2024 earnings call. Joining me today are Paul Graves, President and Chief Executive Officer and Gilberto Antoniazzi, Chief Financial Officer.

The slide presentation that accompanies our results, along with our earnings release, can be found in the Investor Relations section of our website. Prepared remarks from today's discussion will be made available after the call.

Following our prepared remarks, Paul and Gilberto will be available to address your questions. Given the number of participants on the call today, we would request a limit of one question and one follow-up per caller. We would be happy to address any additional questions after the call.

Before we begin, let me remind you that today's discussion will include forward-looking statements that are subject to various risks and uncertainties concerning specific factors, including but not limited to those factors identified in our Form 10-K and other filings with the Securities and Exchange Commission. Information presented represents our best judgment based on today's information. Actual results may vary based upon these risks and uncertainties.

Today's discussion will include references to various non-GAAP financial metrics, including Adjusted EBITDA, Adjusted EBITDA Margin, adjusted earnings per diluted share and adjusted tax rate. Definitions of these terms, as well as a reconciliation to the most directly comparable financial measure calculated and presented in accordance with GAAP, are provided on our investor relations website. And with that, I'll turn the call over to Paul.

**<u>Highlights</u>**
**Slide 3: Paul Graves**

Thank you, Dan.  Arcadium Lithium reported strong results in the quarter, despite market conditions remaining challenging and lithium market price indices ending the quarter at lower levels than they started.  Our financial performance continues to show the benefits in these market conditions of our low-cost operating footprint and our commercial approach of securing long-term contracts with strategic partners wherever it makes sense to do so. Similar to last quarter, this helped us to achieve higher realized pricing than we would have, had we been following a fully market-exposed pricing approach.  As a consequence, we delivered an Adjusted EBITDA margin of close to 40% in the quarter and for the year to date.

Arcadium Lithium realized average pricing of $17,200 per product metric ton for our combined hydroxide and carbonate volumes in the second quarter, with our butyllithium and other specialties products achieving a price per LCE that was significantly above this. Our multi-year customer relationships and the wide range of high-quality lithium products we produce means that we can continue to focus on operating our network to maximize the value we achieve per LCE, wherever possible.

We have brought significant additional production capacity online at both Olaroz and Fénix this year, and we expect this to result in a 25% increase in combined lithium hydroxide and carbonate sales volumes in 2024. The timing of the volume additions, as well as the nature of the start-up processes, means that we expect 25% volume growth again in 2025 from these already completed expansions, giving us two consecutive years of above-market volume growth.

We continue to make significant progress on cost savings as we implement various integration efforts across the two legacy businesses.  We expect to realize cost savings in 2024 towards the high end of our $60 to 80 million guidance range.  We are also pursuing a program of accelerating the total cost reduction initiatives that we announced with the merger.  As a reminder, we previously announced that we expect to achieve total cost synergies of $125 million per annum by 2027, and we are now targeting to deliver these savings faster.

It is increasingly clear that at current lithium market prices our industry cannot invest in capacity expansion at the pace announced to date.  Arcadium Lithium's expansion projects are forecast to be amongst the lowest cost operations globally when completed, and we remain committed to developing all of them in the coming years. However, the market today is clearly indicating to our industry that accelerating the delivery of additional supply volumes is not what is needed if the market is going to be in balance.  We have therefore decided to slow down the pace of our own expansion plans by pausing investment in two of our four current expansion projects.  Consequently, we will invest in our growth on a timeline that is supported by the market and our customers.  This will allow us to reduce our financial commitments during this period of low market prices, reducing our total capital spending over the next 24 months by approximately $500 million while maintaining flexibility to restart these projects at an appropriate time in the future.

I will now turn the call over to Gilberto to discuss our second quarter performance.

**<u>Reported Financial Results</u>**
**Slide 4: Gilberto Antoniazzi**

Thank you, Paul.  Starting on slide 4, Arcadium Lithium reported second quarter revenue of $255 million dollars, Adjusted EBITDA of $99 million dollars and adjusted earnings of 5 cents per diluted share.

Total volumes in the second quarter were up slightly versus the first quarter, with higher carbonate and hydroxide sales partially offset by lower spodumene sales due to reduced production at Mt. Cattlin.  Average realized pricing was higher sequentially for spodumene, but lower across all other products.  This decline was driven by a combination of lower market prices for lithium chemicals, the lag impact of price indices on a portion of our carbonate and hydroxide volumes, and changes in both product and customer mix.

Adjusted EBITDA margins were positively impacted by lower operating costs, while partially offset by some negative FX impacts.  As a result, the Company achieved an Adjusted EBITDA margin of 39%, demonstrating our leading low-cost position in Argentina and the earnings power of our business in these challenging market conditions.

**<u>Breakdown by Product</u>**
**Slide 5: Gilberto Antoniazzi**

Turning to slide 5, we provide further detail on second quarter and year-to-date performance from our key product groups. Lithium hydroxide and lithium carbonate together make up the core of our business, comprising nearly three-quarters of total revenue. On a combined product ton basis, we sold roughly 10,800 metric tons at an average realized price of $17,200 per metric ton in the second quarter.

While pricing was lower quarter-over-quarter, this is higher than what would have been achieved had we pursued a fully spot market-based sales strategy. We continue to benefit from various price floors and firm annual volume commitments in place with a select group of core customers under multi-year agreements.

Average realized pricing across butyllithium and other lithium specialties was also down versus the prior quarter. However, these products continue to deliver very high value for their underlying lithium content while reducing the overall volatility in our portfolio over time.

For spodumene, we sold roughly 23,500 dry metric tons in the quarter from Mt. Cattlin at an average grade of 5.3%. Volumes were slightly lower, consistent with the reduced mining and production plan for the year. We achieved average realized pricing of just over $1,000 per dry metric ton on a SC6 equivalent basis, which was up over 20% versus the first quarter. The cash operating cost of production at Mt Cattlin remains at approximately $700 per ton due to reduced mining activity.

I will now turn the call back to Paul.

## Market Conditions

**Slide 6: Paul Graves**

Thanks Gilberto. I would like to provide some market observations as set out on slide 6. Beginning with the obvious, there continues to be a broad negative overhang on the lithium and energy storage space as we move into the second half of the year. Lithium prices moved lower in the second quarter and have declined even further third quarter-to-date, testing new lows in this cycle. There are a few dynamics we can point to that are contributing to this price weakness.

Touching briefly on demand, it's safe to say that while there has been some recent pullback in near-term U.S. and European EV demand growth, demand growth globally remains robust. On a gigawatt-hour basis, total EV and PHEV sales were 20% higher year-over-year in the first half of this year. Underlying growth in China, where the bulk of lithium demand resides today, remains strong with EV sales exceeding 1 million units in the month of June and penetration rates continuing to set all-time highs. Additionally, demand growth for stationary storage applications continues to be a rapidly growing part of the future total demand picture. In aggregate, there has been very little fundamental change to the long-term demand trajectory for lithium, and this growth is going to continue to require meaningful additional supply to come online if the market is going to be in balance.

However, we clearly don't have that balanced market today. Additional lithium supply has come into the market at a faster rate than many of us had expected. Much of this supply growth has come in the form of spodumene out of Africa and lepidolite in China, which is much higher cost than most existing supply. Much of the investment in these resources is coming from supply chains directly connected to convertors or end-consumers in China, as they seek to become more integrated into upstream resources as part of a strategy of establishing long-term security of supply. This is resulting in lower demand growth for unintegrated spodumene, even as end market demand for lithium chemicals continues to grow. It also reduces the demand for some lithium chemicals, as more consumers or fully integrated convertors in China are now producing lithium chemicals themselves.

Put differently, while the volume of lithium chemicals being processed into the battery supply chain continues to increase at double digit percentages per year, the market for non-integrated spodumene concentrate and lithium chemicals has not been growing at the same rate in recent quarters.

Despite this slower external demand growth for lithium products, we have seen spodumene producers in particular continue to increase both their production and shipments of spodumene concentrate. Our own marketing of small volumes of spodumene concentrate from Mt Cattlin shows that the demand for material remains broad, with over 20 bids received for our latest market-testing auction; however, the increase in supply appears to be even greater than this broad demand can absorb, leading to more downward pressure on spodumene prices. And history shows us that when spodumene prices are low, lithium chemical prices in China are also going to be low, and that is certainly the case today. To compound this, we have also seen supply of lithium carbonate from South America continue to grow, albeit at slower rates than the growth in spodumene supply.

As a result of this increased supply, we see higher levels of lithium carbonate and spodumene concentrate inventory in the market right now. Much of this inventory is being held by traders and through futures exchanges where activity is increasing, rather than at producers or at end customers.

Greater customer and convertor integration and a greater willingness of intermediaries to buy and hold material, combined with the continued flux in technology roadmaps of global OEMs, is resulting in less visibility for lithium producers into true underlying end-market demand than we have had historically. It is easy for producers today to see end-use consumption continue to grow and see this as a proxy for market demand for third-party lithium chemicals; however, the evidence suggests that in today's environment this connection is not holding true in the short-term.

Despite this, we view longer-term lithium prices as heavily skewed to the upside from today's levels, as there is limited ability for prices to move much further down from current levels on a sustained basis. In fact, we believe that prices in China today are well below the cost of the marginal producer and significantly below the prices needed to incentivize further investment. The longer prices stay where they are, the greater the likelihood of production curtailment from high-cost resources and the lower the investments in future supply. We expect that end-market demand growth rates and lithium chemical demand growth rates will return to alignment as the pace of back-integration slows, and this will result in prices increasing towards reinvestment levels at that time.

While we have seen more announcements to date of slow-downs and delays from both incumbent producers and junior developers, we do not expect these to materially impact the market in the next few quarters. However, we do believe that the forecasted supply for 2026 and beyond in most independent models is much too high, given the impact of these slowdowns.

We expect to see more discipline from producers and less freely available and more expensive capital, especially for those projects that are not backed by existing cash flow or are being developed by companies without a proven track record of success. We also do not believe that lepidolite or African spodumene volumes can continue to expand at the rate we have seen in the last few years. And perhaps just as important, the financial logic of downstream conversion of raw materials into higher-value products, especially outside China, will face much higher challenges, resulting in a very tight market for lithium hydroxide that is not sourced from China.

**<u>Arcadium Lithium Updates: Capacity Expansions</u>**
**Slide 7: Paul Graves**

We remain confident in a return to healthier market fundamentals over time, as well as in the world-class development projects available in our portfolio.  However, we must adapt to the realities of the market we find ourselves in today, and the pace at which we can responsibly invest capital on that basis.

Arcadium Lithium has therefore made the decision to pause investment at the Galaxy project in Canada.  This remains a world class resource, with leading fundamentals and a projected operating cost that will be amongst the lowest for spodumene assets in the industry.  However, we do not believe that the market needs us to bring this volume online on a merchant basis within the next two years, and as I just mentioned, the current economics of building carbonate or hydroxide conversion capacity outside China, absent a very strong long-term customer commitment, are not compelling. We are currently exploring bringing in a partner that is interested in providing capital for the project in return for a long-term strategic investment, likely backed by a long-term supply agreement. The pause will be structured to minimize the cost and timing disruption when this project is ultimately restarted.

Additionally, Arcadium Lithium is revisiting the sequencing of its combined 25,000 metric ton lithium carbonate projects at the Salar del Hombre Muerto in Argentina between Fénix Phase 1B and Sal de Vida Stage 1. These projects are also industry-leading, with forecasted operating costs firmly in the first quartile for lithium carbonate production. However, rather than execute both expansions simultaneously as previously announced, the expansions will now be completed sequentially. Doing this will also provide additional time to evaluate how to optimize future development of the Salar del Hombre Muerto complex, where the two projects sit within a few kilometers of each other, especially with respect to the additional infrastructure investments that will be needed for future expansions. It will also allow us to spread the capital spending over a longer period of time.

We are not changing our plans for the development of Nemaska Lithium, the 32,000 metric ton integrated spodumene to hydroxide project in Canada. The combination of our progress made to date and the strong customer commitments we have in place for the project give us confidence in continuing to push forward towards commercial production.

As a result of our decision to defer investment in two of our four current expansion projects, as well as a process of identifying cost saving opportunities in our remaining projects, we expect to reduce our capital spending by approximately $500 million over the next 24 months.

These decisions do not reflect any change in our view of the attractiveness of these projects.  But in today's environment, we will focus on cost discipline and operational execution that continues to differentiate the performance of our business in this market, as well as on responsible capital deployment as we navigate through low market prices.

Our portfolio of operating and development assets remains core to the value and future of this business, and we intend to provide a detailed review of our expansion plans, financial outlook and broader strategic objectives at our upcoming Investor Day on September 19th with further details on this event to follow.

**Arcadium Lithium Updates: 2024**
**Slide 8: Paul Graves**

Moving to slide 8, we are providing a few 2024-specific updates for Arcadium Lithium.

We recently announced our acquisition of the lithium metal business of Li-Metal Corp. for $11 million in cash, which includes intellectual property and lithium metal production assets, including a pilot production facility in Ontario, Canada.

This acquisition strengthens our position as a global producer of lithium metal by providing safer, lower cost and more sustainable processes for lithium metal production using varying grades of lithium carbonate as feedstock. This complements the lithium chloride-fed process from our operations in Argentina that we use today. It will improve the capabilities of our butyllithium and high purity metal businesses while increasing the flexibility of our integrated network of assets and our ability to maximize the value of the lithium that we sell to our customers.

Additionally, we continue to make significant progress in identifying and executing on merger integration and cost saving initiatives across the two legacy businesses. As a result, we now expect to realize synergies in 2024 towards the high end of our $60 to 80 million guidance range. This is driven primarily by organizational restructuring, operating and logistics savings and the elimination of third-party and other services across the two companies.

Looking beyond 2024, Arcadium Lithium is accelerating its plans to achieve total cost synergies of $125 million per year by three years of merger closing. We have commenced a program to accelerate the delivery of these cost savings and will provide further detail regarding these plans in the coming months.

With respect to our recently completed capacity expansions, we continue to increase production levels as we move through the start-up processes. We are now expecting a 25% increase in combined lithium hydroxide and carbonate sales volumes for the full year 2024, with the volume growth coming predominately in the second half of this year.  These expansions will continue to increase their output in the coming quarters, leading us to forecast a further 25% increase in total volumes in 2025 compared to 2024.

The first 10,000 metric ton lithium carbonate expansion at Fénix, Phase 1A, is fully commissioned and operating today and we expect it to be producing at full operating rates and target quality levels by the end of the year.  This rapid move to nameplate operating capabilities is a direct consequence of using the same direct lithium extraction process already in place at Fénix.

The 25,000 metric ton carbonate expansion at Olaroz, Stage 2, is producing lithium carbonate, but will be slower to increase operating rates and meet designed quality standards due to the nature of conventional pond-based extraction processes.  We expect Stage 2 to continue to increase production rates throughout the second half of this year while more consistently meeting design quality, and to be well on its way towards nameplate production levels later in 2025.

For lithium hydroxide, the new 5,000 metric ton unit in Bessemer City, North Carolina, the 15,000 metric ton unit in Zhejiang, China, and the 10,000 metric ton unit in Naraha, Japan are all finalizing qualification with key customers.  They are expected to increase commercial volumes as soon as the lithium carbonate production in Argentina increases to feed them.

I will now turn the call back to Gilberto to discuss our updated full year 2024 outlook.

**<u>Full Year 2024 Outlook: Sales Volumes</u>**
**Slide 9: Gilberto Antoniazzi**

Thanks Paul.  Turning to slide 9, you will see our updated 2024 volume growth translated into sales expectations by major products.  Combined hydroxide and carbonate sales are now expected to increase by 7,000 to 12,000 metric tons, or 25% higher than 2023 on an LCE basis at the midpoint.

We have maintained our projection for lithium carbonate sales this year while reducing lithium hydroxide sales. This is for two primary reasons. First, the small delays in our carbonate expansion ramp-ups meant that our downstream hydroxide production plans were also slightly impacted for 2024. Second, and more importantly, at current market prices we have found more attractive opportunities to sell additional carbonate volumes to customers versus selling uncommitted hydroxide volumes, particularly when factoring in the additional conversion costs. We are able to leverage this commercial flexibility due to our current lithium carbonate to hydroxide conversion process. Given we will not be reducing the firm volume hydroxide commitments under our multi-year agreements, and we are now expecting to sell fewer remaining hydroxide volumes to customers near prevailing market prices, this will provide a customer and product mix benefit to us that you will see shortly in our scenario outlooks.

We have also slightly lowered our projected spodumene sales for 2024.  This will result in second half sales volumes being fairly similar to the first half.

## <u>Full Year 2024 Outlook: Select Financial Items</u>
**Slide 10: Gilberto Antoniazzi**

On slide 10, I want to provide some commentary on our outlook for other financial items.  We have made no adjustments to our full year outlook for SG&A or diluted share count, inclusive of 67.7 million dilutive shares from treatment of the convertible notes outstanding.

With respect to D&A we lowered our 2024 outlook by $45 million.  This is due to a combination of slower expected ramp-up of new production assets as well as accounting rules that determine when parts of capitalized spending can begin to depreciate.

We have narrowed the range of our Adjusted tax rate to 25% to 30%, lowering the midpoint by 1.5 percent. This is a result of our progress as Arcadium Lithium continues to integrate the combined operating model as a global business.

For capex, we have lowered the high end of our guidance, resulting in a range of $550 to $700 million. We expect quarterly cadence in the second half of the year to be more in line with second quarter spending.

**<u>Full Year 2024 Outlook Scenarios</u>**
**Slide 11: Gilberto Antoniazzi**

On slide 11, we have provided an updated framework to understand how changes in market prices for the second half of the year may impact the financial performance of Arcadium Lithium for the full year 2024.

We have shown two scenarios using general lithium market price assumptions of $12 and $15 per kilogram on an LCE basis for the second half of the year. We keep constant the midpoints of our latest expected sales volumes, cost savings and SG&A for 2024 while overlaying existing commercial agreements as applicable.

These scenarios should not be interpreted as a forecast by Arcadium Lithium as to the likely range of lithium prices in the second half of 2024, which they are not. However, they were lowered from the initial pricing scenarios we provided in order to be more reflective of where the market is today. You will continue to see that in the lower case where Arcadium Lithium achieves a $12 average price per LCE on its market-based volumes, the business remains highly resilient, supported by our quality and low-cost production assets, while offering significant upside should a price rebound in fact take place.

Back to you Paul.

## Closing Remarks
**Paul Graves**

Thanks Gilberto. To wrap up quickly before taking your questions, I want to reiterate the strong performance of Arcadium Lithium in the first half of the year. We generated over $200 million of Adjusted EBITDA at a 40% margin so far this year, even as the price environment has been weaker than we initially expected, and we continue to drive cost and performance improvements throughout our expanded operating network.

We will continue to invest in responsible growth, focused on making sure we position the business to perform well throughout all market cycles. We will look to use our balance sheet sensibly, and make sure we are neither investing ahead of or behind what the market needs. We look forward to speaking with you in further detail about all of this at our Investor Day in September.

I will now turn the call back to Dan for questions.